

# DOCKET SECTION

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268**

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

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**Postal Rate and Fee Changes, 1997**

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**Docket No. R97-1**

## **INITIAL BRIEF OF THE ASSOCIATION OF AMERICAN PUBLISHERS**

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April 1, 1998

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**STATEMENT OF CASE AND OF STATEMENT OF POSITION  
REGARDING PROPOSED RATE INCREASES**

The Association of American Publishers, Inc. ("AAP"), hereby submits its initial brief on the Request of the United States Postal Service for the Postal Rate and Fee Changes in R97-1. AAP is the principal representative of the book publishing industry in the United States. It has over 300 members which encompass large and small publishing houses, as well as university and other non-profit publishers. These members make particular use of the Standard Mail (B) Bound Printed Matter ("BPM") subclass. No party has challenged the Postal Service's proposals for the BPM subclass. The record developed in this case supports no greater increase in BPM rates than that proposed by the Postal Service.

**THE COMMISSION SHOULD RECOMMEND  
THE POSTAL SERVICE'S REQUESTED INCREASE FOR BPM**

The record in this case demonstrates that the increase for BPM should be no more than the Postal Service's proposal. Postal Service Witness Adra has proposed an increase in rates for BPM by an average of 5 percent. Direct Testimony of Mohammed A. Adra, USPS-T-38 at 1. Witness Adra's testimony also demonstrates that the proposed increase is based on a 152 percent cost coverage. Id. at 11. The BPM rate proposal also would increase the carrier route discount from 6.3 cents to 6.7 cents.<sup>1</sup> Id.

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1. The Postal Service also proposed that the weight limit for BPM be increased from 10 pounds to 15 pounds. Testimony of USPS Witness Adra, USPS-T-38 at 1. Subsequent to the initiation of this proceeding, a settlement was reached among the parties in the Bulk Parcel Return Service Proceeding, MC 97-1, agreeing to increase the BPM weight limit to 15 pounds. The Commission issued a recommended decision in MC 97-1 approving the weight limit increase and the Board of Governors subsequently approved

at 1. These proposals are confirmed by Postal Service witness O'Hara who notes that the 152 percent cost coverage is designed to ensure that actual and potential competitors of the BPM subclass are not unfairly targeted. Direct Testimony of Donald J. O'Hara, USPS-T-30, Exhibit USPS-30D. Further, Witnesses O'Hara -- recognizing that the BPM subclass is primarily used for the purposes of sending books -- testified that in establishing the rates for BPM, the Postal Service took into account the educational, cultural, scientific and informational value of the mail matter as required by statute. Id.; 39 U.S.C. § 3622(b)(8).

The rates for BPM should not be increased more than the proposals presented by witnesses Adra and O'Hara. No party has offered a direct challenge to the proposed BPM rate increase or contradicted the testimony of witnesses Adra and O'Hara with respect to the BPM subclass. See Tr. 8/4269-4320; Tr. 2/73-501. Nonetheless, in the context of arguing against rates increases proposed for other subclasses, several parties have put forth novel theories which, while not directed toward the BPM subclass, could potentially result in higher rates for BPM than those proposed by the Postal Service. AAP submits that any alternative methodologies proposed by such testimony cannot, in any way, result in a higher rate increase for the BPM subclass than has been proposed by the Postal Service.

Newspaper Association of America ("NAA") witness Sharon Chown has proposed a new method of assigning institutional costs that purports to distribute the

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the Commission's recommendation with respect to BPM. PRC Op. MC 97-1; 62 F.R. 51372 (October 1, 1997).

costs across all subclasses, including BPM, according to the relative intensity with which particular functions are used in delivering mail in those subclasses. AAP submits that the rebuttal testimony of MOAA/AMMA/DMA witness Andrew and USPS witness Laurits Christensen make abundantly clear that the Chown methodology is flawed. Rebuttal Testimony of Laurits Christensen, USPS RT-7 at p. 16; Rebuttal Testimony of Gary M. Andrew, MOAA et al, RT-1 at 6-39.

By definition, institutional costs are those costs that cannot be attributed with any degree of accuracy to any particular subclass of mail. This is because the costs are common to the provision of mail service for all classes. For this reason, the Postal Service is required by statute to allocate institutional costs across the subclasses using the established rate-making criteria. See 39 U.S.C. § 3622(b). Nonetheless, Chown's testimony asserts that institutional costs can be related to particular functions -- such as mail processing, window, service, transportation and delivery -- because those functions are used in different degrees of intensity in delivering mail in each of the subclasses. Chown provides no economic basis for this assertion or for the purportedly accurate measurement technique that she proposes for implementing it.

Indeed, Chown's testimony displays another critical contradiction. On the one hand, her written testimony defines institutional costs as "those costs for which a reliable causal connection has not been found." Tr. 25/13323. On the other hand, in her direct testimony she criticizes the current method used by the Postal Service to assign institutional costs as one that "can result in a low institutional cost assignment for a subclass of mail that primarily uses mail functions for which few of the costs are

attributed, even if the provision of these functions causes the Postal Service to incur substantial institutional costs.” Tr. 25/13265. This latter statement cannot make sense, however, if by definition, institutional costs are those that do not entail a causal relationship, as Chown elsewhere admits. In short, Chown’s testimony is fundamentally inconsistent, and her proposed technique for allocating institutional costs among subclasses lacks any economic justification. It should not be applied to BPM or any other subclass.

United Parcel Service witness Henderson has submitted testimony proposing alternative mark-ups for each of the subclasses which, if adopted, also could result in a slightly higher rate increase for BPM. Direct Testimony of Stephen Henderson, UPS-T-3 at Exhibit UPS-T-3B. AAP believes that like NAA witness Chown’s approach, witness Henderson’s methodology is seriously flawed, and should be rejected by the Commission. In establishing the alternative mark-up figures, witness Henderson assumes that all mail-processing costs are 100 percent volume variable. *Id.* at 9-12; Answer of United Parcel Service Witness Henderson to Interrogatory of Association of American Publishers, AAP/USPS-T3-1. In contrast, Postal Service Witness Bradley shows that not all mail processing costs are completely volume variable. Direct Testimony of Michael D. Bradley, USPS-T-14 at 3-10; Tr. 36/19399. Nowhere in witness Henderson’s testimony does he attempt to challenge witness Bradley’s conclusions regarding volume variability. Thus, because witness Henderson has not explained why witness Bradley’s approach to volume variability should be ignored, the Commission

should accord Henderson's alternative methodology with no weight.<sup>2</sup>

In contrast to witness Henderson's testimony, Time-Warner witness Halstein Stralberg adopts witness Bradley's approach to volume variable costs and presents attributable costs for the BPM subclass which are substantially less than those proposed by the Postal Service witness Degan. Direct Testimony of Halstein Stralberg, TW-T-1 at Exhibit 1. Thus, witness Stralberg's costing methodology, if taken into account and applied to the BPM subclass, would lead to a lesser rate increase for BPM than that proposed by the Postal Service. Moreover, while the proposed cost coverage of 152 percent appears consistent with cost coverages historically assigned to BPM, it fails to account properly for the predominance of books in the subclass. As noted by Postal Service witness O'Hara, "[o]ver the years an increasing number of books have been mailed as BPM." Direct Testimony of Donald J. O'Hara, USPS-T-30 at 39. According to witness O'Hara, as a result of this trend, "[t]he Commission has . . . given the subclass some [criterion 8] ECSI consideration in setting rate levels, and . . . the Postal Service proposal in this proceeding does so as well." *Id.* AAP submits that if, as the Postal Service's own witness claims, books are increasingly sent as BPM, setting the cost coverage at historical levels ignores the increasing "educational, cultural, scientific, and informational value" of BPM mail matter. 39 U.S.C. § 3622(8). In short, additional ECSI consideration should result in a lower cost coverage assigned to BPM, and the rate

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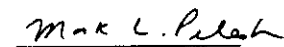
2. UPS witness Henderson also relies upon UPS witness Sellick in determining the volume variable costs for BPM. Witness Sellick, however, also fails to account for witness Bradley's methodology. The testimony of MPA witness Rita D. Cohen appropriately demonstrates this point. *See* Rebuttal Testimony of Rita D. Cohen, MPA-RT-1 at 7-8.

increase for BPM should be correspondingly reduced.

### CONCLUSION

In no event should rates for the BPM subclass be set above the rates requested by the Postal Service. No party has directly challenged the Postal Service's proposal for BPM. Further, to the extent that any intervenor -- in the context of arguing for lower rates for other subclasses of mail -- has put forth methodologies which indirectly could affect BPM rates, such proposals are substantively flawed and should be rejected by the Commission.

Respectfully Submitted,

  
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## **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.

*Mark L. Pelesh*

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